

Bob Holden
Governor



Jacquelyn D. White
Commissioner

State of Missouri
OFFICE OF ADMINISTRATION
Post Office Box 809
Jefferson City, Missouri 65102
(573) 751-2971
<http://www.oa.mo.gov/acct>

James A. Carder
Director
Division of Accounting

December 31, 2003

The Honorable Bob Holden
Governor
State of Missouri
State Capitol
Jefferson City, Missouri 65101

Dear Governor Holden:

In accordance with generally accepted accounting principles, I submit to you the Comprehensive Annual Financial Report of the State of Missouri for the fiscal year 2003. This report was prepared by the Office of Administration, Division of Accounting, whose management is responsible for its contents. The report is prepared to show the financial position and operating results of the State. We believe the data presented is accurate in all material respects and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial activities have been included.

Method of Presentation

The report is divided into an Introductory Section, a Financial Section, and a Statistical Section. The Introductory Section contains the transmittal letter, the State organizational chart, and a list of principal officials. The Financial Section is composed of the Auditor's Opinion, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Statistical Section provides various financial, economic, and demographic data about the State.

PROFILE OF THE GOVERNMENT

This report includes funds of various departments, agencies, and other organizational units for which the State is financially accountable. The following criteria were considered in determining financial accountability: appointment of a governing body, ability to impose the State's will on the organization or the organization can provide specific financial benefits to, or impose specific financial burdens on, the primary government. The following organizations are considered component units and are included in the State's reporting entity:

- Board of Public Buildings
- Conservation Employees' Insurance Plan
- Transportation Self-Insurance Plan
- Missouri Consolidated Health Care Plan
- Highway and Transportation Employees' and Highway Patrol Insurance Plan
- Missouri State Employees' Retirement System
- Highway and Transportation Employees' and Highway Patrol Retirement System
- Missouri State Public Employees' Deferred Compensation Commission
- State Colleges and Universities
- Development Finance Board
- Agricultural and Small Business Development Authority
- Fulton 54 Transportation Corporation
- Missouri Transportation Finance Corporation
- Missouri Highway 179 Transportation Corporation
- Missouri Highway 63 Transportation Corporation
- Springfield, MO State Highway Improvement Corporation
- Wentzville Parkway Transportation Corporation

The State provides a range of services in the areas of agriculture, education, health and social services, transportation systems, public safety, law enforcement, judicial systems, economic development, conservation and natural resources, labor relations, and general administration.

The State operates on a legally adopted budget in order to ensure compliance with legal provisions embodied in the annual appropriated budget passed by the General Assembly and approved by the Governor prior to the beginning of the fiscal year. If appropriations are not sufficient for a fiscal year, supplemental amounts are requested during the next legislative session by the same process that original appropriations are requested. Budgetary control is maintained at the departmental level. Expenditures cannot exceed the appropriation amounts at the individual appropriation level. Also, the Governor has the authority to reduce the allotments of appropriations in any fund if it appears that the revenue estimate will not be met. Unexpended appropriations lapse at the end of each appropriation year, unless reappropriated to the following appropriation year.

MAJOR INITIATIVES

Balancing Missouri's budget in fiscal year 2003 was achieved through sound financial management. A conservative consensus revenue estimate was agreed to by the Governor and General Assembly. However, the estimate was revised in December 2002 and May 2003 as the continued effect of the recession, the terrorist attacks, the war in Iraq, and the falling stock market on the State's revenue collections became clearer. Personal income trends indicate that Missouri can expect moderate growth during fiscal year 2004. In future years, Missouri will continue to focus on controlling the growth of mandatory programs through various cost-effective alternatives. Major funding priorities include education, health care, correctional facilities, and economic development.

FINANCIAL INFORMATION

The State's financial statements have been prepared using the financial reporting model set forth by the Governmental Accounting Standards Board Statement No. 34. This is explained further in the Management's Discussion and Analysis (MD&A) in this report. Other necessary disclosures are included in the notes to the financial statements.

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve part of the appropriation, is employed for purposes of budgetary control and contract compliance. Encumbrances at year end do not constitute expenditures or liabilities.

Tax Limitation

Article X, Sections 16–24 of the Constitution of Missouri (the "Tax Limitation Amendment"), imposes a limit on the amount of taxes which may be imposed by the General Assembly in any fiscal year. This limit is tied to total State revenues for fiscal year 1981, as defined in the Tax Limitation Amendment and adjusted annually, in accordance with the formula set forth in the amendment which is tied to increases in the personal income of Missouri for certain designated periods. If the revenue limit is exceeded by 1% or more in any fiscal year, the excess revenue will be refunded pro-rata based on the liability reported on State income tax returns. If the excess revenue collected is less than 1% of the revenue limit, the excess revenue shall be transferred to the General Revenue Fund. The revenue limit can be exceeded by a constitutional amendment duly adopted by the people or if the General Assembly approves by a two-thirds vote an emergency declaration by the Governor.

Strong economic growth resulted in revenues above the total state revenue limit in fiscal years 1995 through 1999. The State has refunded to Missouri income taxpayers the entire \$978.7 million in excess revenue for those years. All Article X refunds were initially paid from the General Revenue Fund and various other funds reimbursed their share of the refund liability through operating transfers to the General Revenue Fund as appropriated by the General Assembly. The total amount reimbursed from other funds is \$168.1 million. However, in the fiscal years 2000–2003, the State was well below the revenue limit. Currently, revenue is under the limit by more than \$1 billion.

The Missouri Merchants and Manufacturer's Association filed a lawsuit to obtain a judicial determination of certain issues relative to this calculation. The lawsuit (Missouri Merchants and Manufacturer's Association et al v. State of Missouri Case No. 99-CV-323530) was remanded with instructions to the Circuit Court of Cole County after an appeal to the Missouri Supreme Court. In fiscal year 2003, \$6 million of Article X refunds relating to prior years revenue receipts were paid based on the Cole County Circuit Court decision regarding the treatment of refundable tax credits in the total state revenue calculation.

The Missouri Merchants and Manufacturer's Association filed an additional lawsuit to obtain a judicial determination of certain issues relative to this calculation. The lawsuit (Missouri Merchants and Manufacturer's Association et al v. State of Missouri, Case No. 00-CV-325457) was dismissed on April 22, 2002.

Proprietary Operations

The State has several significant proprietary entities which contribute a vital part of governmental services. The Board of Public Buildings operates and maintains certain State buildings. The State Lottery Commission oversees the lottery operations and controls. The Department of Labor and Industrial Relations pays benefits based on the Unemployment Compensation Law. The Development Finance Board is authorized to make loans for projects that benefit the economy or infrastructure of the State and its political subdivisions. The Petroleum Storage Tank Insurance provides insurance against leakage from underground storage tanks. Transportation Corporations promote and develop public transportation facilities and systems by new and alternative means.

Pension Plans

The State has two retirement systems, the Missouri State Employees' Retirement System (MOSERS) and the Highway and Transportation Employees' and Highway Patrol Retirement System (HEHPRS). Total assets of MOSERS and HEHPRS at June 30, 2003, were \$6,743,389,000 and \$1,263,175,000, respectively. The net pension obligation for MOSERS at June 30, 2003, was \$96,516,000. There was no net pension obligation for HEHPRS at June 30, 2003. The State sponsors the Missouri State Employees' Deferred Compensation Incentive Plan which had total assets of \$112,945,000 at June 30, 2003.

Debt Administration

The amount of general obligation debt that can be issued by the State is limited to the amount approved by popular vote plus the amount of \$1 million. The State's general obligation debt limit at June 30, 2003, was \$1,776,000,000 of which \$336,505,760 was unissued. The general obligation debt position of the State at June 30, 2003, was as follows:

General obligation bonded debt (net of amount available in governmental funds)	\$ 860,730,000
Debt per capita for general obligation debt	\$ 151.06

During fiscal year 2003, \$52,155,000 of the bonds were retired and \$45,000,000 of new bonds were issued. At year end, the total general obligation debt outstanding was \$900,745,000 and the interest rate range was 3.0-7.0%.

The State's general obligation bond issues received triple "A" ratings from Moody's Investors Service, Inc., Standard & Poor's Ratings Group, and Fitch IBCA, Inc.

Cash Management

During the year, cash from the various State funds is invested by the State Treasurer. Most of these funds' cash balances are pooled for investment purposes. The State also invests its "float" which increases the earning power. Cash was invested in time deposits with maturities ranging from 30 to 1,096 days, in U.S. Treasury and federal agency securities with maturities ranging from 1 to 1,826 days, in repurchase agreements with maturities ranging from 1 to 90 days, and in commercial paper with maturities ranging from 1 to 90 days. At June 30, 2003, these investments consisted of:

	<u>Amount</u>	<u>Interest Rates</u>	<u>Market Value</u>
Time Deposits	\$ 326,995,334	0.90 - 3.151%	\$ 326,995,334
Treasurer and Agency Securities	1,689,789,228	1.171 - 5.777%	1,700,608,829
Repurchase Agreements	361,795,000	1.21%	361,795,000
Commercial Paper	516,971,919	1.055 - 1.288%	516,975,345

The average yield on maturing investments during the year was 2.19% and the amount of interest earned was \$59,579,598.

The State attempts to minimize credit and market risks while maintaining a competitive yield on its investments. Approximately 82% of investments held by the State and subject to risk categorization at June 30, 2003, are classified in the lowest risk category as defined by the Governmental Accounting Standards Board. All deposits invested by the State Treasurer are either insured by federal depository insurance or collateralized.

Risk Management

The State currently assumes substantially all risks associated with:

- Claims of State employees for unemployment compensation benefits
- Claims of covered employees for Workers' Compensation Fund and Second Injury Fund benefits
- Claims of State employees, covered under the Conservation Employees' Insurance Plan and the Highway and Transportation Employees' and Highway Patrol Insurance Plan, for medical insurance
- Liability claims against the State or its agencies for the dangerous conditions of property and operation of motor vehicle and watercraft
- Liability claims actionable under the law that parties may file against the State, its officials, employees, or appointees

The State maintains the Legal Expense Fund which purchases insurance coverage for:

- Aircraft liability and hull insurance
- Faithful performance employee bond

The State purchases insurance coverage through various funds for:

- Group life insurance
- Long-term disability insurance
- Medical insurance

OTHER INFORMATION

Independent Audit

An annual audit of the general purpose financial statements is completed each year by the State of Missouri Auditor's Office. The State Auditor conducts the audit in accordance with generally accepted government auditing standards, and her opinion has been included in this report. The State Auditor conducts a "Single Audit" of all federal funds.

Acknowledgements

We wish to express our sincere appreciation to the staff of the various State agencies and other organizational units, who provided necessary financial information. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by technical and management personnel within the State Auditor's Office, the State Treasurer's Office, Office of Administration, and numerous other State agencies. We would like to convey a special thanks to the State Printing Center for their dedicated efforts in assisting us in the preparation of this report.

Sincerely,

A handwritten signature in black ink, appearing to read "James A. Carder", written in a cursive style.

James A. Carder, Director
Division of Accounting